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KEDI ECONOMIC SURVEY

U.S. ECONOMIC OUTLOOK FOR 1981

February 28, 1981

President: Vladimir J. Simunek

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The prediction for generally high rates of inflation is maintained. There has been a small revision in the rate for 1981: it has been changed from 12.4 to 12.2 per cent. That is still well ahead, sorry to say, of the figure the Administration is using. The January jump in producer's prices will lead to renewed monthly CPI gains.

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1.0 OVERVIEW AND ASSUMPTIONS

1.01 OVERVIEW

The basic forecast in this issue has not been changed. Starting with the December, 1980 issue, the broad thrust of the Reagan program's concerning the 10 per cent income tax cuts, the Federal budget cuts, and the accelerated depreciation allowances have incorporated into the calculations.

On February 18, Reagan announced the details of his plan. Some data in that address were slightly different from the earlier rough draft indications which had been included in the two prior issues of this KEDI forecast. Minor adjustments in a few areas have been made because of this and for two other reasons.

First, the Department of Commerce announced their routine revision of National Income and Product Data for the fourth quarter of 1980: the estimate of fourth quarter growth in real GNP was lowered to a seasonally adjusted 4 per cent annual rate from the earlier calculation of 5 per cent.

Also, there was a bit more strength in the performance of certain aspects of the economy during January than had been predicted. Housing starts, retail sales, and employment slightly exceeded the estimates that had been made here in the past few months.

Putting these elements together, has lead to the following small changes in the forecast:

OVERVIEW

Instead of the earlier estimate of 1.6 per cent real growth in GNP for 1981, that has been revised to 1.7 per cent as compared to 1981.

The forecast for the inflation rate this year has been revised by KEDI from 12.4 per cent to 12.2 per cent.

Very minor upward revisions in housing starts, personal consumption, and interest rates anticipated have been made.

As compared with the Reagan plan, the forecast here is, in general, more pessimistic. The accompanying table presents the forecasts in four areas with GNP and inflation given as percentage changes over the prior year. The deficit calculations are for fiscal years.

	GNP (Growth Rates)		Inflation (CPI base)		Unemployment rate		Federal Deficits Billions of $	
	Admin.	KEDI	Admin.	KEDI	Admin.	KEDI	Admin.	KEDI
1981	1.1%	1.7%	11.1%	12.2%	7.8%	7.5%	-54.5	-56.2
1982	4.2%	3.4%	8.3%	11.0%	7.2%	7.2%	-45.0	-38.7
1983	5.0%	3.8%	6.2%	10.7%	6.6%	6.8%	-22.9	-34.2
1984	4.5%	3.6%	5.5%	10.2%	6.4%	6.7%	+.5	-25.3
1985	*	3.0%	4.7%	10.6%	6.0%	6.8%	*	-21.2
1986	*	3.2%	4.2%	10.1%	5.6%	6.6%	*	-24.7

* Unknown figures

As can be seen in the preceeding comparison of forecasts, the main difference between KEDI and the Administration is the INFLATION RATE.

OVERVIEW

Apparently, the Reagan planners are counting on a certain degree of change in the expectations of the business community. That is, it appears, they figure those in the business world will believe that the rate of inflation will go down and through their actions, that will automatically reduce the rate of inflation. KEDI is not as optimistic about the expectations being changed to any significant degree - or the rate of inflation. Also, the wage escalators built into the wage contracts for the next 2-3 years, will keep pushing the costs and prices upwards.

There is the additional factor, mentioned in the January issue, of the connection of the U.S. economy with the rest of the world. It is expected here that worldwide inflation will be in the 10 per cent range for each of the next five years. Through international trade and banking and currency connections, there are rippling effects to and from this country. The rate of inflation (and interest rate levels) will continue to be intertwined with that of other major nations and oil producing nations with a hold on purse strings that makes them "major" in terms of influence and power.

The position at this Institute is that the key aspect to the program are the ACCELERATED DEPRECIATION ALLOWANCES for businesses. That will give a boost that is sorely needed in productivity. Calculations show that the proposals, if adopted, would help to increase business capital outlays each year in the 1982-85 period by about 2 or 3 per cent instead of the present estimate of the gain between 1980 and 1981 of just about 1 per cent. The gain in business capital outlays would generate annual increases in

productivity of 1.5 - 1.7 per cent. That is certainly a favorable change when it is compared to the average 0.5 per cent annual DECREASES that more aptly describe the 1979-81 period.

Productivity is a main ingredient in the scrimmages fought in the long haul of the inflation battle. It cannot be ignored.

Another aspect of the program that is important are the proposed budget cuts. Budget cuts are necessary as they are the first steps toward controlling inflation. The income tax cuts are also important because without them, the burden of such taxes would soon become too hard to bear and the consequences economically in terms of declining purchasing and increasing debt would be calamitous.

It is KEDI's evaluation, that steps in the right direction are included in the Reagan program. The analysis conducted by this Institute shows that the program is economically feasible and can be realized with positive effects for our economy. The KEDI forecast demonstrates that the Administration's goals are too optimistic. The goal of drastic reductions in the rate of inflation and significant lessening of the Federal deficit are not likely to be attained. On the other hand, it is shown, that the program can lead to the resumption of growth in productivity and in per capita real income in the foreseeable future.

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Table 1.0
KEDI FORECAST HIGHLIGHTS

Correction: This Table 1.0 had two errors in the January issue. First, the last column of data was for 1985, but the column was incorrectly headed as 1983. Secondly, the figure for the Implicit GNP Price Deflator should have been 266.6 for 1985 not 252.6 We are sorry.

Indicator	Unit	1980	1981	1982	1985
Gross National Product	bil. const. 72 $	1480.9	1516.5	1158.5	1727.6
Index of Industrial Production	1967 =100	147.1	153.1	161.3	186.4
Capacity Utilization	%	78.7	78.6	84.8	87.6
Unemployment Rate	%	7.2	7.5	7.2	6.8
Private Housing Starts	mil. units	1.303	1.576	1.651	1.849
Car Sales	mil. units	9.1	9.5	9.5	11.8
Implicit GNP Price Deflator	1972 =100	177.4	194.6	211.1	267.9
Consumer Price Index	1967 =100	246.7	276.7	307.4	433.8
Producer Price Index	1967 =100	269.8	305.1	341.3	471.2
Federal Deficit	bil. $	-64.1	-57.3	-36.8	-24.1
Personal Income	bil. $	2160.2	2411.7	2694.4	3774.5
Prime Rate	%	15.10	16.95	14.87	11.60
Mortgage Rate	%	12.97	13.95	13.07	10.90
Currency plus Demand Deposits	bil. $	377.4	394.3	419.4	518.9
Commercial and Industrial Loans	bil. $	313.6	334.8	366.8	432.7

1.02 ASSUMPTIONS

The following assumptions are part of this forecast. Compared with assumptions incorporated into the January, 1981 issue, the changes concern the updates of Assumptions No. 3, 4, and 7.

1. In 1985, all U.S. demands for oil should be met. The weighted price of oil in 1981 will go up to the $40 range. In 1982, it is expected the price will go up to $46, in 1983, to $57 per barrel. In 1984, to $63 per barrel, and in 1985, to $72 per barrel.

2. It is expected, that the Mid East crisis will continue throughout this and the next year, and more normal economic situations, including a significant resumption in the area's of oil exports, will take place not earlier than in 1983.

3. Some relaxation of tight monetary policy and drops from record high interest rates will take place early in 1981. However, high interest rates and restrictive monetary and credit policies will prevail in the 1981-85 period.

4. The Federal Reserve Board will, at long last, begin a policy of setting limits to the monetary growth by long-term commitments, not just short-term as has been the policy in the past. Price and wage controls must remain the last resort of stabilization policy. The Administration's program of personal income tax cuts, Federal budget cuts, and accelerated depreciation will be adopted without major changes. Increase in state and local taxation is anticipated.

ASSUMPTIONS

5. Our foreign trade with China will gain a substantial momentum in 1981 and following years.

6. In 1981 and 1982 good harvests are assumed for this country and average production of crops is expected in the U.S.S.R. A low harvest in the U.S.S.R. is expected in 1983. The U.S. 1983 harvest will be average, and the years 1984 and 1985 will bring record crops.

7. It is projected here that the rates of growth in 1981-84 in the major industrial countries will be as follows for real GNP:

	1981	1982	1983	1984	1985
West Germany	1.1%	1.6%	2.3%	3.1%	3.4%
Japan	1.5%	2.3%	3.3%	3.6%	4.0%
Italy	1.3%	1.8%	2.5%	2.8%	2.8%
Great Britain	1.2%	1.9%	2.3%	2.6%	2.7%
France	1.7%	2.3%	2.7%	2.8%	3.0%

8. No drastic changes in existing international relationships are assumed in this forecast.

1.10 REAL GROWTH

(Table 1.10 on page 11)

Recently released data are confirming the general view that has been expressed here that there would not be declines in the economy during the first quarter. More growth is predicted for the second half of this year.

REAL GROWTH

Housing starts were up in January. The gain was slight, but given the high mortgage rates, the seasonally adjusted rate of 3.4 per cent over the last month of 1980 does show the economy is hardly going in the dumper.

Retail sales went up by an adjusted 2 per cent in January. That provided the eighth month in a row of gain's in the seasonally adjusted totals for such sales. Actual sales showed declines as is typical in January. Also, the Commerce Department revised their estimate of the sales record for December. Earlier, sales were said to have declined an adjusted 1.3 per cent. That was changed to an estimate of an adjusted increase in December over the prior month of 0.3 per cent. (The sales totals in January bring to mind the consumer carefully planning ahead and bargain shopping at the January sales, perhaps even picking up greeting cards for December of 1981 and "squirreling" away a few Christmas or birthday gifts bought at the January reduced prices.)

The unemployment rate in January remained unchanged at 7.4 per cent. The outlook expressed here that the first part of this year would average out to being nearly flat is brought to mind when the jobless figure is considered.

For the sixth consecutive month, industrial production went up. The January gain of a seasonally adjusted 0.6 per cent followed the December rise of 1.0 per cent over the prior month. These gains have occurred

REAL GROWTH

despite the devitalized condition of the auto and a part of steel industries. The Federal Reserve's index of the output of utlities, factories, and mines was at 151.8 per cent in January of the average in 1967. That was 0.6 per cent lower than the level in January of 1980. The index has shown continuing strength in machinery.

Although the growth rate for GNP in the fourth quarter was lowered from 5 to 4 per cent, real growth of 4 per cent certainly can be viewed as good news especially when there were those that expected none at all.

The revision reflected that consumer sales were stronger than the Commerce Department had anticipated and that business inventories were reduced to a much larger extent. Courtenay Slater, chief economist, indicated that the tight inventories resulting point to some growth in the near future as there is little left to sweep off the shelves which means production increases in the first part of this year.

KEDI never predicted a recession for the first quarter of 1981. The majority of forecasters did just that and NOW they are adjusting their views. Whereas some were saying the economy would be grinding to a halt, they now have changed their pronouncements to agreement with the view of this Institute--slow growth.

The survey of 43 prominent forecasters by Robert J. Eggert published in early January showed that the average forecast at that time pointed to

REAL GROWTH

a drop in economic activity during the first quarter that averaged out to an annual rate decline of 1.1 per cent. Early this month, the average of that figure had moved to just 0.4 per cent. The most recent survey also showed a broader range among the forecasters. The most optimistic was a prediction of 3 per cent growth in 1981 and the least favorable was the forecast of 1 per cent decline this year.

The uncertainty among forecasters is typified by a quotation from the chairman of an investment-advisory firm concerning the assortment of economic and political scenarios, "...based upon ample evidence for each case, it could be argued that things are likely to get better, stay about the same or become materially worse in the next 12 to 18 months." He went on to indicate that a new decline may begin in the next six months, and it just is not reasonable to forecast beyond that point at this time. (The Wall Street Journal, Harold Ehrlich, page 1, February 2, 1981.)

This Institute is not uncertain. The Kent Forecasting System projects real GNP growth of 1.7 per cent for 1981. As no forecast for declines were made concerning the first part of this year or any part of this year, no revisions of that nature have had to been made here.

The news of growth in retail sales, housing starts, and the gain in industrial production is balanced somewhat by the continued problems in the auto industry. New car sales went down in January by 20 per cent when compared to the year-earlier figure. However, since the performance at that time was quite strong, such a comparison makes it look worse than

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TABLE 1.10 REAL GROWTH
(Unless otherwise noted, quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1980*	1981				1981
			1	2	3	4	
Gross National Product, 1972 $	bil. $	1480.9	1490.1	1498.2	1509.7	1528.1	1506.5
Index of Industrial Production	1967=100	147.1	152.0	152.4	153.0	154.8	153.1
Unemployment Rate	%	7.2	7.6	7.6	7.5	7.4	7.5
Capacity Utilization Rate	%	78.7	76.7	77.2	78.9	81.7	78.6
Private Housing Starts	mil. units	1.303	1.430	1.565	1.684	1.624	1.576
Car Sales	mil. units	9.1	8.7	8.9	8.9	9.4	9.5

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Gross National Product, 1972 $	bil. $	1516.5	1532.9	1546.3	1568.1	1586.7	1558.5
Index of Industrial Production	1967=100	153.1	157.0	159.6	163.0	165.6	161.3
Unemployment Rate	%	7.5	7.4	7.3	7.1	7.1	7.2
Capacity Utilization Rate	%	78.6	82.8	84.4	85.7	86.4	84.8
Private Housing Starts	mil. units	1.576	1.478	1.640	1.759	1.729	1.651
Car Sales	mil. units	9.5	9.1	9.5	9.8	9.5	9.5

Indicator	Unit	1982	1983				1983
			1	2	3	4	
Gross National Product, 1972 $	bil. $	1558.5	1591.5	1611.8	1630.2	1640.1	1618.4
Index of Industrial Production	1967=100	161.3	167.1	170.3	173.8	176.1	171.8
Unemployment Rate	%	7.2	6.9	6.9	6.8	6.6	6.8
Capacity Utilization Rate	%	84.8	85.3	86.4	86.9	87.3	86.5
Private Housing Starts	mil. units	1.651	1.539	1.872	2.017	1.756	1.796
Car Sales	mil. units	9.4	9.4	9.8	9.6	10.3	9.8

* Historical Data

it actually is, and its bad enough without doing that. Analysts pointed to the seasonally adjusted data which showed some improvement in the annual rate when January is compared to December, 1980 adjusted data. KEDI does foresee some increase in the number of cars sold this year as compared to last year. (The reader is referred to Table 1.0 on page 5.) Still it must be remembered that 1980 was a year of declining auto sales and that gains forecast for this year over 1980 are not substantial.

1.20 PRICES
(Table 1.20 on page 15)

KEDI maintains its forecast of high inflation rates in 1981 and throughout the first half of this decade. The prediction for 1981 is 12.2 per cent gain in the CPI over 1980. The 1982 figure is 10.8 per cent. The long-term outlook shows that food prices will continue to increase at roughly 10 per cent a year during the 1981-85 period. The annual rate of gain in the price of electricity will be about 8 per cent. Natural gas will go up by about 12 per cent and gasoline, heating oil, and coal by 9 per cent. Medical services are expected by KEDI to gain at annual rates of approximately 10 per cent. Housing items are calculated to go up in the 8-10 per cent range. These are the main items in the Comsumer Price Index.

PRICES

When compared with the 3-5 per cent rate of inflation that is anticipated by the Administration for the 1984-85 period, the outlook in Washington is simply way off the mark. One wonders if their figures are "real" calculations or if they are issued in hopes that such pronouncements will have an impact by changing our expectations of future inflation and changing our behavior accordingly.

Again, prices throughout the world will be rising over the next few years. The U.S. economy will not be isolated from the expected 10 per cent annual gains in average prices worldwide.

Recently released data point to continued high rates of price escalation. Producer prices leaped ahead by 0.9 per cent in January on a seasonally adjusted basis. Almost 40 per cent of the jump resulted from higher prices for fuels. The increase in January was the largest since last August. The decontrol of oil will continue to fuel the fires of the gains in this area. The price shove that decontrol will give will begin to be reflected next month.

After the President announced the decontrols, the major oil companies immediately started to raise prices. For instance, Exxon increased its prices for all oil products by eight cents a gallon in early February. First they announced a three cent rise and a few days later they added another nickel. Such gains did not exactly fit in with David Stockman's statement that decontrol would lead to price gains of three to five cents over a <u>few months</u>.

PRICES

Consumer prices went up at an annual rate of 9.1 per cent in January. That was a bit of a slowdown, but as all analysts agree, it was only temporary. The jump in producer prices have not yet moved to corresponding gains in consumer prices. KEDI expects that the Consumer Price Index will again be at an annual rate in the 10 digit range in the coming months. The main elements here will be energy and food items.

According to the monthly survey by the National Association of Purchasing Management Inc., 64 per cent of purchasing managers reported paying higher prices in January then they did in December. In December, 54 per cent said they were paying more.

The Commerce Department reported that steel-import "trigger" prices will go up by 4.4 per cent in the second quarter. That action would result in an import price of not less than $422.95 per net ton for integrated steel mill products. The trigger price program began in 1978 as an effort to help protect the steel industry in this country. The prices are pegged to the prices for products made in Japan because of their efficiency.

In terms of the forecast here, the changes are minor in that there is a small adjustment in the forecast for the CPI due mainly to the downwardly revised data for Housing Items.

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TABLE 1.20 PRICES AND NOMINAL GNP
(Unless otherwise noted, quarterly data
are seasonally adjusted at annual rates)

Indicator	Unit	1980*	1981				1981
			1	2	3	4	
Consumer Price Index, NSA	1967=100	246.7	263.1	273.0	281.7	288.9	276.7
Producer Price Index, NSA	1967=100	269.8	289.2	301.4	309.8	320.0	305.1
Implicit GNP Price Deflator	1972=100	177.4	188.2	193.1	196.9	200.1	194.6
Gross National Product	bil. $	2626.5	2804.8	2893.0	2973.1	3057.6	2932.1
Personal Consumption Expenditures	bil. $	1672.5	1658.4	1771.8	1828.9	1876.1	1783.8
Gross Private Dom. Investment	bil. $	395.4	408.5	418.7	429.5	449.7	426.6

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Consumer Price Index, NSA	1967=100	276.7	298.1	302.6	309.6	319.1	307.4
Producer Price Index, NSA	1967=100	305.1	328.7	337.9	345.6	352.8	341.3
Implicit GNP Price Deflator	1972=100	194.6	205.1	209.0	213.9	216.9	211.1
Gross National Product	bil. $	2932.1	3144.6	3232.1	3347.6	3442.3	3291.6
Personal Consumption Expenditures	bil. $	1783.8	1933.3	1983.4	2062.9	2114.9	2023.6
Gross Private Dom. Investment	bil. $	426.6	468.2	493.9	515.7	528.4	501.5

Indicator	Unit	1982	1983				1983
			1	2	3	4	
Consumer Price Index, NSA	1967=100	307.4	326.7	335.9	345.9	352.8	340.3
Producer Price Index, NSA	1967=100	341.3	360.1	370.2	378.7	388.3	374.3
Implicit GNP Price Deflator	1972=100	211.1	221.4	225.6	231.2	235.9	228.5
Gross National Product	bil. $	3291.6	3523.9	3636.7	3769.7	3868.5	3699.7
Personal Consumption Expenditures	bil. $	2023.6	2163.4	2235.8	2334.1	2404.8	2284.5
Gross Private Dom. Investment	bil. $	501.5	540.2	556.7	570.2	582.1	562.3

* Historical Data

1.30 EMPLOYMENT AND LABOR

(Table 1.30 on page 17)

The forecast of the unemployment rate by KEDI for the first quarter has been changed from a seasonally adjusted average of 7.8 per cent calculated for the last issue to 7.6 per cent. The January rate of unemployment of 7.4 per cent reported by the Labor Department was lower than what had been anticipated here, due mainly to the production gains in machinery. (If a forecast is going to be out of line with what does occur, it's almost nice to report the "good" news that joblessness was not quite as high as had been calculated earlier.) KEDI expects that there will be a similar rate in the second quarter and slight declines in the latter half of this year.

Some forecasters still maintain that there will be a peak of 8 per cent in the unemployment rate in 1981. For example, Data Resources is predicting an 8 per cent peak late this spring or in early summer as they anticipate consumer spending to weaken.

KEDI does not see anything like that at all. Consumer demand in the forecast here remains strong throughout the year.

Assuming that the Labor Department is correct in its estimate of the 7.4 per cent unemployment rate in January, then there is no way that first quarter unemployment can reach the 7.8 - 8.0 per cent level. Even KEDI was off but not by such a wide margin as other forecasters.

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TABLE 1.30 EMPLOYMENT AND LABOR
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1980*	1981				1981
			1	2	3	4	
Population	mil.	223.0	224.7	225.5	226.3	227.1	225.9
Civilian Labor Force	mil.	105.1	106.6	107.0	107.8	108.5	107.5
Employed	mil.	97.5	98.5	98.9	99.7	100.4	99.4
- Agriculture	mil.	3.4	3.3	3.3	3.4	3.3	3.3
- Non Agriculture	mil.	94.1	95.2	95.6	96.3	97.1	96.1
Unemployment Rate	%	7.19	7.61	7.59	7.47	7.42	7.52

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Population	mil.	225.9	228.0	229.2	230.4	231.4	229.6
Civilian Labor Force	mil.	107.5	109.1	109.9	110.7	111.6	110.3
Employed	mil.	99.4	101.1	101.7	102.9	103.7	102.4
- Agriculture	mil.	3.3	3.4	3.4	3.3	3.3	3.4
- Non Agriculture	mil.	96.1	97.7	98.5	99.6	100.4	99.0
Unemployment Rate	%	7.52	7.35	7.26	7.07	7.10	7.20

Indicator	Unit	1982	1983				1983
			1	2	3	4	
Population	mil.	229.6	231.5	232.3	232.9	233.4	232.5
Civilian Labor Force	mil.	110.3	112.7	113.9	114.3	115.1	114.0
Employed	mil.	102.4	104.9	106.1	106.6	107.5	106.3
- Agriculture	mil.	3.4	3.3	3.4	3.3	3.4	3.4
- Non Agriculture	mil.	99.0	101.6	102.7	103.3	104.1	102.9
Unemployment Rate	%	7.20	6.94	6.89	6.75	6.61	6.80

* Historical Data

EMPLOYMENT AND LABOR

In January the number of people actually reported without jobs moved up to the 8.5 million range from the 7.2 million level in December. That boosted the actual rate of unemployment to 8.2 per cent from the December figure of 6.9. The statistical adjustment for the typical December/ January change showed unemployment going up 0.8 per cent to 7.85 million in January and the seasonally adjusted rate holding at 7.4 per cent. The adjusted jobless rate for adult males declined to 6 per cent in January from the 6.2 per cent level in the prior month. The rate for women edged down from 6.8 to 6.7 per cent, but the jobless rate for teens moved up to 19 per cent from the December level of 17.8 per cent.

The forecast of the average workweek remains unchanged here. It will show slight increases in each quarter of this year.

1.40 HOUSING
(Table 1.40 on page 20)

Housing starts went up in January by 3.4 per cent over the prior month to a seasonally adjusted annual rate of 1.585 million units. In January of 1980, the rate was 1.3 million units, and it was 1.7 million in the first month of 1979. The January gain was due to the jump in multifamily units. Such construction was up by 14.8 per cent over the December level, whereas single-family unit construction was down by 3.1 per cent. On a year-to-year comparison, multi-family unit building gained by almost

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52 per cent, and one-family house building went down by 2.5 per cent from January of 1980.

The forecast by KEDI is roughly in line with other predictions. It is expected here that housing unit starts will increase gradually throughout this year.

Jonathan Goldfarb of Merrill Lynch, Pierce, Fenner & Smith Inc. indicated that housing starts will decline in the next few months but will then move upward. His estimate of total starts for this year is 1.5 million units, the figure for 1982 is projected at 1.8 million, and for 1983 it is 2 million.

As can be seen in Table 1.40, single and multifamily housing starts projected by this Institute total 1.58 million for 1981, 1.64 for 1982, and 1.79 for 1983. Hence, the forecast here is a bit less optimistic for 1982 and 1983 than that of Mr. Goldfarb, but a bit more favorable for the current year.

Chase Econometric Associates Inc. forecast housing starts in the fourth quarter at an annual rate of 1.56 million units. Calculations here put that total just a bit higher--1.62 million starts.

KEDI agrees with the general view that homeowning will not be as easy an accomplishment as it was in recent decades. The high cost of credit, the rising cost of energy, and inflation eroding the value of the paycheck

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TABLE 1.40 HOUSING
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1980*	1981				1981
			1	2	3	4	
Single-Family Housing Starts	mil.	.860	.850	.975	1.073	1.014	.978
Multifamily Housing Starts	mil.	.474	.580	.590	.611	.610	.600
Mobile Home Shipments	mil.	.222	.245	.287	.305	.322	.290
Housing Permits Issued	mil.	1.117	1.025	1.568	1.723	1.701	1.505
Construction Costs-Commerc.	1972=100	198.5	209.2	218.1	222.9	233.1	220.8
Construction Costs-Resident.	1972=100	198.6	211.0	217.9	222.0	233.4	221.1

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Single-Family Housing Starts	mil.	.978	.885	1.041	1.133	1.098	1.039
Multifamily Housing Starts	mil.	.600	.593	.599	.626	.631	.612
Mobile Homes Shipments	mil.	.290	.302	.334	.371	.390	.349
Housing Permits Issued	mil.	1.505	1.498	1.790	1.901	1.760	1.737
Construction Costs-Commerc.	1972=100	220.8	239.1	252.9	261.0	269.4	255.6
Construction Costs-Resident.	1972=100	221.1	238.3	250.4	259.6	267.3	253.9

Indicator	Unit	1982	1983				1983
			1	2	3	4	
Single-Family Housing Starts	mil.	1.039	.905	1.163	1.285	1.107	1.115
Multifamily Housing Starts	mil.	.612	.634	.709	.732	.649	.681
Mobile Homes Shipments	mil.	.349	.356	.382	.391	.348	.369
Housing Permits Issued	mil.	1.737	1.805	1.993	1.894	1.723	1.853
Construction Costs-Commerc.	1972=100	255.6	277.6	287.1	297.3	310.2	293.1
Construction Costs-Resident.	1972=100	253.9	275.8	286.3	296.5	308.4	291.8

* Historical Data

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and increasing housing costs are all taking their toll on the American Dream. People that do buy will have to make more sacrifices such as buying a smaller home than they had hoped for, using a higher portion of their income for housing and trimming off from other areas, and relying more on some income from a second wage earner in the household.

1.50 GOVERNMENT BUDGETS

(Table 1.50 on page 23)

The forecast incorporates the Administration's plan of income tax cuts, budget cuts, and accelerated depreciations. Provided that the Administration's proposal, as announced February 18, 1981 are enacted, the following calendar year, Federal deficits are projected by KEDI.

1981: $57.3 billion

1982: $36.8 billion

1983: $36.4 billion

1984: $28.6 billion

1985: $24.1 billion

A surplus of $500 million in fiscal 1984 is projected by the Administration. This is obviously not foreseen here.

The analysis shows that the differences between the Administration's and KEDI's projections are mainly in the following:

GOVERNMENT BUDGETS

The Administration projects lower rates of inflation than KEDI, especially for the years 1982-1985. But even for 1981, the calculation for the inflation rates are over a full percentage point apart. See page 5 of 1.01, Overview.

Consequently: Federal budget outlays for Social Security, Medicaid and Defense in KEDI's projection are higher because of adjustments due to inflation. Tax receipts are projected in approximately the same amounts by KEDI and by the Administration. The resulting deficit in KEDI's projection is necessarily higher.

In the forecast by this Institute, the income effects of the proposed 10 per cent tax cuts are partially offset by the projected increases in income and property taxations by State and Local Governments. It is anticipated, that the Administration's plan will result in 1981-84 yearly average reductions of $10 billion in Federal grants-in-aid to State and Local Governments. The smaller receipts of State and Local Governments from the Federal Government will be partially compensated by increasing local taxation. As is shown in Table 1.50 on page 23 the condition of State and Local Government Budgets change from a projection of $26.2 billion surplus in 1981 down to $22.5 billion surplus in 1982 and up again in 1983 to $24.6 billion.

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TABLE 1.50 FEDERAL AND STATE
AND LOCAL BUDGETS
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1980*	1981				1981
			1	2	3	4	
Federal Govt.:							
Income Taxes	bil. $	256.4	278.0	286.9	291.4	298.0	288.6
Corporate Profit Tax Accruals	bil. $	69.7	75.9	82.2	87.8	95.8	85.4
Surplus./Deficit	bil. $	-64.1	-65.8	-59.9	-54.5	-48.9	-57.3
State and Local Governments:							
Income Taxes	bil. $	80.2	87.0	88.9	91.5	94.8	90.1
Corporate Profit Tax Accruals	bil. $	12.2	13.2	14.6	15.8	16.4	15.0
Surplus./Deficit	bil. $	27.1	28.4	27.4	25.2	23.8	26.2

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Federal Govt.:							
Income Taxes	bil. $	288.6	309.3	317.8	328.5	338.6	232.6
Corporate Profit Tax Accruals	bil. $	85.4	102.2	109.5	117.0	124.2	113.2
Surplus./Deficit	bil. $	-57.3	-44.5	-37.6	-31.6	-33.6	-36.8
State and Local Governments:							
Income Taxes	bil. $	90.3	95.9	98.3	101.7	104.0	100.1
Corporate Profit Tax Accruals	bil. $	15.0	17.0	18.1	18.5	20.1	18.4
Surplus./Deficit	bil. $	26.2	23.2	21.1	21.9	22.9	22.5

Indicator	Unit	1982	1983				1983
			1	2	3	4	
Federal Govt.:							
Income Taxes	bil. $	323.6	349.9	360.7	374.0	385.6	367.6
Corporate Profit Tax Accruals	bil. $	113.2	131.8	137.6	143.2	150.6	140.8
Surplus./Deficit	bil. $	-36.8	-37.0	-39.8	-36.2	-32.6	-36.4
State and Local Governments:							
Income Taxes	bil. $	100.1	106.7	108.9	110.8	113.1	109.9
Corporate Profit Tax Accruals	bil. $	18.4	20.9	21.8	23.1	24.6	22.6
Surplus./Deficit	bil. $	22.5	23.0	23.6	24.7	25.2	24.6

* Historical Data

1.60 INCOME

(Table 1.60 on page 25)

The increase in personal disposable income in 1981 over the former year is projected at 12.2 per cent in 1982; 11.7 per cent in 1983; 14.2 per cent in 1984; and 14.6 per cent in 1985, provided that the Federal income tax cuts are enacted.

The growth rate of personal disposable income in 1983-1985 will be substantially faster than that of the personal income due to the tax cuts. Measured per capita and adjusted by inflation, it is projected here, that, after 4 years of stagnation from 1977 through 1981, per capita real disposable income will resume growth.

The forecast of profits is somewhat optimistic. KEDI projects, that, in general, the corporation's after tax profits in 1981 will grow by 10 per cent, and more robust growth of 12.4 per cent is expected in 1982. These figures are not adjusted for inflation.

Leading in profits in 1981 will be oil companies, which will make most of their profits from production of oil rather than on marketing and refining. Aircraft and aerospace, ordnance and defense industries, chemicals, and electrical and nonelectrical machinery will also lead in profits. Healthy increases of profits are projected for steelmakers, rubber, and mining. Moderate increases in profits are expected for railroads, nonferrous metals mainly aluminum, paper and products, wholesale and retail trade, and textiles. Low profits or some losses are expected in 1981 for the automobile industry, forest products, and building materials.

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TABLE 1.60 INCOME
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1980*	1981				1981
			1	2	3	4	
Personal Income	bil. $	2160.2	2320.0	2379.1	2450.4	2497.3	2411.7
Personal Dispos. Income	bil. $	1821.6	1954.9	2003.5	2067.5	2105.9	2032.9
Compensation of Employees	bil. $	1596.5	1783.2	1835.5	1901.7	1936.5	1864.2
Corp. Profits After Tax	bil. $	161.1	167.8	173.1	180.4	188.3	177.4
Personal Saving	bil. $	101.8	87.9	88.4	91.6	92.3	90.1
Average Weekly Earnings	$	297.4	312.1	313.3	315.2	320.1	315.2

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Personal Income	bil. $	2411.7	2573.5	2645.1	2737.9	2821.3	2694.4
Personal Dispos. Income	bil. $	2032.9	2168.3	2228.9	2307.6	2378.6	2270.9
Compensation of Employees	bil. $	1864.2	1996.3	2054.7	2133.8	2213.0	2099.5
Corp. Profits After Tax	bil. $	177.4	190.0	196.9	202.4	208.8	199.5
Personal Saving	bil. $	90.1	93.5	94.7	95.6	97.1	95.2
Average Weekly Earnings	$	315.2	323.1	325.2	332.7	336.8	329.5

Indicator	Unit	1982	1983				1983
			1	2	3	4	
Personal Income	bil. $	2694.4	2887.9	2990.6	3111.5	3176.0	3041.5
Personal Dispos. Income	bil. $	2271.4	2431.4	2551.0	2628.6	2677.1	2572.0
Compensation of Employees	bil. $	2099.5	2237.2	2318.8	2423.9	2470.0	2362.5
Corp. Profits After Tax	bil. $	199.5	216.9	217.7	223.4	228.7	221.7
Personal Saving	bil. $	95.2	98.2	99.4	101.5	103.4	100.6
Average Weekly Earnings	$	329.5	338.4	342.6	345.7	248.7	343.9

* Historical Data

1.70 MONEY AND CREDIT
(Table 1.70 on page 27)

The forecast of monetary aggregates and the policy anticipated of the Federal Reserve remains unchanged. Monetary policy will continue to be tight throughout the 1981-85 period. No dramatic easing in monetary restraints is foreseen as the entire period will be characterized by strong inflationary pressures.

It was recently revealed that the Federal Peserve will again tighten up the growth of money and credit this year. One decision made behind closed doors in a meeting of the Federal Open Market Committee in early February was to try to cut monetary growth by an added 0.5 per cent in 1981.

KEDI anticipates that there will be a bit of relaxation in the tight money policy in order to allow some for economic growth. However, any relaxations will be very cautious. They will not be abrupt. Small degrees of lessening the tight policies will take place over an extended period of time.

In the present forecast, the projection for negotiable CD's has been increased. It is anticipated here that the importance of large CD's as a source of providing funds for loans will grow permanently throughout the 1981-85 period.

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TABLE 1.70 MONEY AND CREDIT
(Data for "Currency + Demand Deposits" and "Time Deposits, Adjusted" are averages of daily figures; other data are end of period figures)

Indicator	Unit	1980*	1981				1981
			1	2	3	4	
Currency + Demand Deposits, M1A	bil. $	377.4	384.0	389.1	395.9	408.2	394.3
Time Deposits, Adjusted, M2	bil. $	1596.2	1660.1	1673.1	1710.8	1733.9	1694.5
Consumer Instal. Credit	bil. $	310.5	314.5	317.9	324.0	328.2	328.2
Commerc. and Industr. Loans at Banks	bil. $	313.6	316.2	318.0	325.8	334.8	334.8
Negotiable Cert. of Deposits	bil. $	129.2	136.9	142.3	147.1	149.5	149.5
Mortgages at S & L Assns.	bil. $	486.5	496.6	502.4	510.1	518.9	518.9

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Currency + Demand Deposits, M1A	bil. $	394.3	412.1	416.5	421.3	427.5	419.4
Time Deposits, Adjusted, M2	bil. $	1694,5	1730.2	1767.2	1798.5	1833.4	1782.3
Consumer Instal. Credit	bil. $	328.2	335.3	339.8	347.6	354.1	354.1
Commerc. and Industr. Loans at Banks	bil. $	334.8	342.6	349.8	358.7	366.8	366.8
Negotiable Cert. of Deposits	bil. $	149.5	152.4	153.1	154.0	153.7	153.7
Mortgages at S & L Assns.	bil. $	518.9	524.1	527.8	534.3	540.2	540.2

Indicator	Unit	1982	1983				1983
			1	2	3	4	
Currency + Demand Deposits, M1A	bil. $	419.4	434.2	440.6	452.3	460.1	446.8
Time Deposits, Adjusted, M2	bil. $	1782.3	1856.1	1917.4	1960.5	2010.5	1936.1
Consumer Instal. Credit	bil. $	354.1	362.7	369.8	380.4	389.7	389.7
Commerc. and Industr. Loans at Banks	bil. $	366.8	372.3	380.5	385.6	390.3	390.3
Negotiable Cert. of Deposits	bil. $	153.7	154.0	155.1	156.7	156.4	156.4
Mortgages at S & L Assns.	bil. $	540.2	543.5	545.8	548.1	552.6	552.6

* Historical Data

1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES
(Table 1.80 on page 29)

As compared with the January forecast by this Institute, in this one, interest rates have been slightly increased for the entire first half of the decade. Still, the changes are small ones as fractions of per cents are involved.

The trend projected here remains the same. Interest rates are seen as declining gradually throughout the 1981-85 years with some resumption of gains in 1985.

Some economists anticipate a credit crunch or a dramatic change in interest rates. That is not the view here. The forecast that looks to interest rates above 20 per cent for short-term rates and close to 19 per cent for long-term rates as existing by the latter part of this year is not one shared by KEDI. Money willnot be that tight.

This Institute does not agree with Henry Kaufman's assessment that interest rates will move upward in an irregular pattern with the prime rate going up to or beyond 21 and 1/2 per cent sometime this year. As is shown in Table 1.80, the prime rate is seen as moving gradually downward to the 15.5 per cent range in the last quarter of this year.

KEDI does not anticipate a prime rate in the 20 per cent range or above toward the end of this year, nor is any sudden lack of fresh credit on the horizon. As compared with the January issue of this survey, no essential changes in the February stock market forecast took place.

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TABLE 1.80 INTEREST RATES, YIELDS AND SECURITIES PRICES

Indicator	Unit	1980*	1981				1981
			1	2	3	4	
3 mo Treas. Bills Rate (new issues)	%	11.86	13.49	12.46	11.38	10.86	12.05
Prime Rate	%	15.10	18.51	17.34	16.40	15.57	16.95
Mortgage Rate, New Homes	%	12.96	14.30	14.19	13.83	13.47	13.95
Aaa Bonds Rate	%	11.89	12.37	12.16	11.75	11.08	11.84
Long Term Govt. Bonds Yield	%	10.96	11.50	11.21	10.96	10.74	11.10
Standard & Poor's 500 Average	1941-43 =10	114.70	118.30	121.58	124.72	126.95	122.89

Indicator	Unit	1981	1982				1982
			1	2	3	4	
3 mo Treas. Bills Rate (new issues)	%	12.05	11.14	10.38	10.26	10.40	10.55
Prime Rate	%	16.95	15.21	15.19	14.73	14.35	14.87
Mortgage Rate, New Homes	%	13.95	13.24	13.08	13.01	12.96	13.07
Aaa Bonds Rate	%	11.84	10.81	10.72	10.60	10.41	10.64
Long Term Govt. Bonds Yield	%	11.10	10.21	10.18	10.26	10.23	10.22
Standard & Poor's 500 Average	1941-43 =10	122.89	126.78	126.43	124.05	126.74	126.00

Indicator	Unit	1982	1983				1983
			1	2	3	4	
3 mo Treas. Bills Rate (new issues)	%	10.55	10.14	10.11	10.34	10.49	10.27
Prime Rate	%	14.87	14.01	14.32	13.47	13.51	13.83
Mortgage Rate, New Homes	%	13.07	12.47	12.38	12.69	12.91	12.61
Aaa Bonds Rate	%	10.64	10.23	10.37	10.51	10.86	10.49
Long Term Govt. Bonds Yield	%	10.22	10.19	10.31	10.48	10.64	10.40
Standard & Poor's 500 Average	1941-43 =10	126.00	127.18	128.71	126.15	125.21	126.81

* Historical Data

2.0 COMPARISONS OF ACCURACY OF PREDICTIONS

In this issue, the unemployment rate has been selected for comparison. Actual figures for the year 1980 have been computed from three main sources: Survey of Current Business (U.S. Department of Commerce, Bureau of Economic Analysis, Washington, D.C.), blue pages, December 1980 issue; estimates of unemployment of the U.S. Department of Labor for December 1980 and January 1981; forecast data from the Conference Board Statistical Bulletin (The Conference Board, Inc., New York, N.Y.), Vol. 12, pp. 8, 9, December 1979. The following table shows the predictions of forecasters and the deviations of forecast data.

Table 2.0 COMPARISONS OF ACCURACY OF PREDICTIONS
UNEMPLOYMENT RATE
(Year 1980, % of civilian labor force)

Actual: 7.2

Forecaster	Forecast	% of Accuracy
ASA-NBER Survey of Regular Forecasters	7.3	+ 1.3
Merrill Lynch Economics, Inc.	8.1	+12.5
KEDI	6.9	- 4.2
Michigan Research Seminar	7.1	- 1.4
The Conference Board	7.6	+ 5.5
Chase Econometric Associates, Inc.	7.7	+ 6.9
Data Resources, Inc.	7.3	+ 1.3
Wharton E.F.A., Inc.	7.7	+ 6.9